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SUBJECT: ROSUKRENERGO CRUNCHED BY CENTRAL ASIAN COLD SPELL?

REFS: A) 07 KYIV 2611

B) KYIV 162

1.(U) According to media reports, Central Asian suppliers (mainly Turkmenistan) have been unable to fulfill their natural gas delivery commitments to Russia and other countries because of the early January cold snap. RosUkrEnergo (RUE), Ukraine's exclusive gas importer that nominally delivers gas from Central Asia, announced that it would sell Russian gas to Ukraine from January to March to cover the shortfall and provide uninterrupted supplies. RUE Managing Director Konstantin Chuychenko reportedly indicated that the shortfall amounts to about 40 million cubic meters (mcm) per day or 14 billion cubic meters (bcm) per year.

2.(U) According to press reports, between January 1 and January 16, RUE purchased approximately 740 mcm of Russian gas at \$314.7 per thousand cubic meters (tcm), in accordance with the existing contract and a price formula agreed by the parties in January 2006. This price is considerably higher than the \$179.5 price negotiated last December by Ukraine's former Minister for Fuel and Energy Yuriy Boyko and Gazprom's chief Alexei Miller for 2008 supplies of a mix of Central Asian and Russian gas. The difference in total price for the delivery of 740 mcm at \$314.7 per tcm versus \$179.5 per tcm would be approximately \$100 million.

3.(U) RosUkrEnergo sells gas to Ukraine through the Ukrainian-based UkrHazEnergo (UHE) which then sells gas to NaftoHaz Ukrainy (Ukraine's state-owned gas and oil company) and to industrial customers. Gazprom has reported a steep rise in debt from RUE which, in turn, points to an overdue debt due them from UHE amounting to \$830 million.

Many Questions Unanswered

4.(SBU) Post sought to find out if the cost for this more expensive gas could be passed on to Ukrainian customers. Our contacts at NaftoHaz and the Ministry of Fuel and Energy confirmed that RUE is buying Russian gas at \$314.7 per tcm, but added that they could not comment on UHE's commercial contracts. UHE also refused to release such information. Because the terms of contracts between RUE and UHE are not public, it remains unclear whether RUE is passing along the higher costs of the Russian gas to UHE. In addition, the period during which UHE's recently reported \$830 million debt for gas supplies was accumulated was not specified. However, recent press reports indicate that the debt is associated with gas in storage for which UHE has not yet paid, and that the debt is not attributable to the higher cost of Russian gas. (Note: It appears the gas debt settled in October 2007 involved gas supplied under trade credits and then later called "debt" (ref A). From descriptions in the press, it appears these debt figures could represent other trade credits. End Note.) UHE Board Chairman Ihor Voronin has also indicated in press interviews that RUE is not passing along the higher Russian gas prices to UHE.

5.(SBU) Even if RUE is absorbing the loss associated with the gas price increase, and the \$830 million debt is simply the result of trade credits, UHE's situation is anything but stable. A recent

"Kommersant" article claimed that NaftoHaz is refusing to sign contracts with UHE as well as with regional gas distribution companies that are unable to pay for gas at the time of delivery. In the press, Former Minister of Fuel and Energy Boyko claimed NaftoHaz is siphoning gas from UHE stores, accusing NaftoHaz of covering its siphoning by refusing to provide a paper trail for gas contracts. (Note: Post is seeking a meeting with NaftoHaz to clarify the situation.)

6.(SBU) Comment: It is unclear whether the cold winter in Turkmenistan is truly forcing Turkmenistan to divert gas exports to domestic markets. There have been no reports of Gazprom complaints regarding shortfalls from Turkmenistan, which one would expect, suggesting that the weather is not the sole culprit. In fact, the Central Asian press has quoted the Turkmenistan Foreign Office as stating that it is fully meeting its obligations and delivering the Turkmen natural gas to Russia in full compliance with the terms stipulated in its contract. Although Gazprom continues in the press to blame shortages on bad weather in Central Asia, Russia may also be using more than its share of Central Asian gas for domestic use, instead of fulfilling contracts with Ukraine. In any case, we doubt that the weather is the only reason Ukraine is receiving reduced shipments of Central Asian gas.

17. (SBU) Comment continued: It is also unclear what these recent events say about the current gas balance for Russia -- does Russia have adequate supplies of cheaper Central Asian gas on hand, or not?

Some energy experts have suggested that Gazprom's price increase for RUE is a reflection of rumored heightened problems between the two. Other press reports speculate it is a Russian reaction to Prime Minister Tymoshenko's call to significantly increase transit fees in gas renegotiations and to eliminate intermediaries in the gas trade between the two countries (ref B). NaftoHaz's recent refusal to sign contracts with UHE, amid accusations of gas siphoning, might also suggest Ukraine's boldest stand yet against the gas middlemen. At the same time, Gazprom has expressed its willingness to eliminate the gas intermediaries if Ukraine is willing to pay the full European price -- the current price of \$314.7 per tcm may serve to demonstrate the consequences of such a move. End comment.

18. (U) Embassies Moscow and Ashgabat have cleared this cable.

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